ChevronTexaco
Washington, DC Office
1401 Eye Street, NW, Suite 1200
Washington, DC 20005
Tel 202 408 5800
Fax 202 408 5845

Philip T. Cavanaugh
Vice President Federal and
International Government Relations

February 17, 2004

ChevronTexaco

Mark Friedrichs, PI-40
Office of Policy and International Affairs
U.S. Department of Energy; Room 1E190
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Mr. Friedrichs:

ChevronTexaco appreciates the Department of Energy's (DOE) efforts in holding public meetings and taking comments on the Proposed Rule for General Guidelines for Voluntary Greenhouse Gas Reporting (General Guidelines). We are pleased to provide comments on the General Guidelines and we recognize the need for a greenhouse gas (GHG) reporting system that is accurate, reliable and verifiable in order to demonstrate achievement of the President's GHG intensity reduction goal. A national system is essential for consistency and to avoid a patchwork of local, state and regional systems that would complicate reporting for large companies operating in several areas throughout the U.S.

ChevronTexaco is an integrated energy company, involved in every aspect of the energy industry. Our operations range from oil and gas exploration and production to transportation, refining and retail marketing, as well as chemicals manufacturing and sales and power production. ChevronTexaco is an environmentally responsible company and recognizes and shares the concerns that governments and the public have about climate change. We have developed a comprehensive program to manage greenhouse gas emissions, and it is being integrated into our business decisions. For example, since 2001 we have required our businesses to integrate greenhouse gas emissions analysis into the planning for all major capital projects. ChevronTexaco's climate change strategy consists of a four-pronged approach: reducing emissions of greenhouse gases and increasing energy efficiency; investing in research, development and improved technology; pursuing business opportunities in promising, innovative energy technologies; and supporting flexible and economically sound policies and mechanisms that protect the environment.

ChevronTexaco has a practical understanding of GHG reporting issues through direct experience in several areas. First, we have an internal process for greenhouse gas reporting and track results in an enterprise-wide database system (the SANGEA™ Energy and Emissions Estimating System). Second, we have reported selected projects in the 1605(b) program since 2000. And third, we Chair the American Petroleum Institute's Greenhouse Gas Emissions Working Group that developed the Compendium of Greenhouse Gas Emissions Estimation Methodologies for the Oil and Gas Industry. We also support the DOE in developing a program that encourages broad, entity-wide participation to reach the President's GHG reduction goal.

ChevronTexaco supports the comments submitted by the American Petroleum Institute (API). In addition, we are offering our own comments which include the recognition for emissions avoided in operations that experience an inherent intensity increase as well as the acceptance of 2000 as a base year for registration of emissions reductions. We hope that our comments help you develop fair, objective and practical methods for emissions reporting that demonstrate real GHG reductions. If you have any questions, please do not hesitate to contact Judy Blanchard in my office at (202) 408-5831.

Philip T. Cavanaugh

KJD/Enclosure

General Comments

We will begin our comments by highlighting ChevronTexaco's position on the issues below. The remaining comments are arranged in the same order as the DOE's solicitation for comments in the preamble and proposed rule.

ChevronTexaco advocates one official, national program for voluntary greenhouse gas reporting – the DOE program. Having a single, national program will ensure consistency in methods and boundaries as well as simplicity for programs in determining how well goals are being met. A national system is essential for preventing a patchwork of inconsistent local, state, regional and other federal programs that would complicate reporting for large companies operating in several areas throughout the U.S. The DOE is the appropriate agency to have ownership of a national reporting system with the independent Energy Information Administration (EIA) managing the program.

The DOE should acknowledge and give recognition to companies for taking early action to reduce emissions from 2000 forward. As proposed, only emission reductions after 2002 can be registered. While we recognize that only reductions from 2002 and onward should be counted toward the President's goal, emission reductions from 2000 forward should be eligible for registration as long as they meet the requirements in the revised General Guidelines. The petroleum industry began developing a consistent methodology for greenhouse gas emissions estimation prior to 2000 and published the first industry-wide proposed methodologies in 2001. As the industry learned during this development process, emissions data from 2000 and onwards may be more easily verifiable. Therefore, the DOE will encourage more participation by allowing entities to report and register reductions from 2000 and onwards rather than the proposed cut-off year of 2002.

ChevronTexaco supports a flexible approach to the definition of reporting entities because:

- **For practical reasons, a phase-in period is needed for transitioning to entity-wide reporting**. Entities should be initially permitted to report and register as small as a project, a refinery or business unit. Over time, a corporation can phase in additional entities until all corporate emissions are rolled up into one report. This will encourage more companies to report and is consistent with the European Union's Emission Trading Scheme. Therefore, we recommend a four year period to encourage reporting companies to move to entity-wide reporting.

- **Companies may want to report emissions on an equity basis**. The proposed General Guideline revisions are not clear about the possibility of companies reporting on an equity basis. Companies should have the option to do so and should describe their arrangement in the entity statement.

The General Guidelines and the Technical Guidelines should be written to acknowledge and encourage more efficient means of generating electricity, particularly for facilities such as refineries that can very efficiently generate steam for process use and export electricity to the grid. In particular, companies that operate efficient power generation facilities, such as cogeneration (also known as Combined Heat and Power, or CHP) or Integrated Gasification Combined Cycle (IGCC), should be able to register emission reductions for electricity and steam generated by these technologies. The DOE should define and recognize improvements in electricity generation in the Technical Guidelines.

Companies should be able to register emission reductions resulting from plant shutdowns if they are reporting on a per unit output basis and/or they are reporting on an absolute basis and production levels are maintained. For example, if an entity is able to shut down one plant and maintain or increase production levels by shifting operations to other plants, thus increasing efficiency, the reduction in emissions should be eligible for registration.

The DOE should include and/or reference the American Petroleum Institute's Compendium of Methodologies for Estimating Emissions from the Oil and Gas Industry and the International Petroleum Industry Environmental Conservation Association (IPIECA) Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions in the upcoming Technical Guidelines. The SANGEA™ Energy and Emissions Estimating System, a software system for tracking emissions inventories, should also be recognized in the Technical Guidelines since it has been recognized by the American Petroleum Institute (API) as the software tool of choice for implementing the API Compendium. ChevronTexaco would like to see consistency across the worldwide petroleum industry and supports API's outreach efforts to other petroleum associations around the world to advocate consistent protocols for global comparison of industry emissions.

The DOE should encourage, but not require, independent inventory verifications. Verification is a resource-intensive undertaking, especially for large companies desiring to report entity-wide, international emissions and reductions. Companies should initiate periodic independent and/or internal ('second-party') verification as appropriate.

II. DISCUSSION OF PROPOSAL AND REQUESTS FOR COMMENTS

B. Defining Reporting Entities

ChevronTexaco supports a flexible approach to the definition of reporting entities because:

- **For practical reasons, a phase-in period is needed for transitioning to entity-wide reporting.** Entities should be permitted to report and register as small as a project, a refinery or business unit. Over time, a corporation can phase in additional entities until all corporate emissions are rolled up into one report. This will encourage more companies to report and is consistent with the European Union's Emission Trading Scheme. Therefore, we recommend a four year period to encourage reporting companies to move to entity-wide reporting.

- **Companies may want to report emissions on an equity basis.** The proposed General Guideline revisions are not clear about the possibility of companies reporting on an equity basis. Companies should have the option to do so and should describe their arrangement in the entity statement.

Trade associations should not get involved in the reporting and registering of emissions. Entities desiring to report and register emissions should do so independently. While we commend the DOE for asking the question, we think it would complicate the process and raise other issues that would be difficult to resolve. This indirect reporting method may lead to double counting of emissions and would create legal and fairness concerns, as well as numerous administrative problems for the trade associations. Trade associations should track and communicate their membership-wide totals, however the DOE Voluntary Greenhouse Gas Reporting Program is not the proper conduit for doing this. For example, we fully support the American Petroleum Institute's (API) commitment to the President's climate policy goals, a 10% aggregate improvement in energy efficiency by API's refining sector membership, however the API intends to communicate progress and results directly to the Administration. API member companies participating in this program should report and register their emissions separately to the DOE Voluntary Program if they would like credit for emission reductions.

H. Emission Reduction Calculations

The DOE Technical Guidelines should recognize calculation methods developed by industry associations, such as International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API). For example, the API Compendium of Greenhouse Gas Emissions Estimation Methodologies for the Oil and Gas Industry (API

Compendium) is a guidance document designed to help the petroleum industry utilize consistent methodologies to estimate emissions. The SANGEA™ Energy and Emissions Estimating System, a software system for tracking emissions inventories, should also be recognized in the Technical Guidelines since it goes hand-in-hand with the API Compendium. Finally, the Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions (the Guidelines) represents a cooperative worldwide petroleum industry effort to develop common boundaries and definitions for the development of greenhouse gas inventories. The effort was sponsored by API, IPIECA and the Association of Oil and Gas Producers (OGP), with direct support from many member companies and worldwide petroleum industry organizations. ChevronTexaco would like to see consistency across the worldwide petroleum industry and supports API's outreach efforts with other petroleum associations around the world to advocate consistent protocols for global comparison of industry emissions.

1. **Reductions in emissions intensity**

   Operations that experience an inherent intensity increase should be recognized for emissions avoided. Petroleum industry upstream operations face a unique challenge in this area. In some cases, aging oil and gas production fields may actually require more energy to operate. This results in higher emissions per barrel and a resulting increase in intensity. So, just to have emissions remain flat would be an improvement. Operators can choose to invest resources in more energy-efficient processes and technologies to minimize the intensity increase. These efforts should be acknowledged by building recognition into the reporting process so that companies who prevent the potential emission intensity increases get additional incentives. This is a real opportunity for emission reductions and ChevronTexaco would encourage the discussion of the form of such incentives, ranging from financial instruments to simple certificates of recognition, as these revisions are developed.

2. **Absolute reductions in emissions**

   Companies should be able to register emission reductions resulting from plant shutdowns if they are reporting on a per unit output basis and/or they are reporting on an absolute basis and production levels are maintained. For example, if an entity is able to shut down one plant and maintain or increase production levels by shifting operations to other plants, thus increasing efficiency, the reduction in emissions should be eligible for registration.

I. Recordkeeping, Report Certification, and Verification

The position of chief executive officer is not appropriate for report certification. The management position responsible for reporting the entity's compliance with environmental regulations or other position designated as the certifier would be a more appropriate sign-off level. See Section 300.10 on page 7 for recommended language revision.

The DOE should encourage, but not require, independent inventory verifications. Third-party verification is a resource-intensive undertaking, especially for large companies desiring to report entity-wide, international emissions and reductions. Companies should initiate periodic independent verification as appropriate.

K. Report Acceptance

The General Guidelines should define the time period within which the DOE responds to an entity regarding report acceptance. We recommend a 30-day time period. See Section 300.12(a) on page 7 for recommended language revisions.

L. Registration of Emission Reductions

The DOE should acknowledge and give recognition to companies for taking early action to reduce emissions from 2000 forward. As proposed, only emission reductions after 2002 can be registered. The DOE should allow eligibility of some emission reductions achieved before 2002 because many companies, including ChevronTexaco, have invested resources towards energy efficiency and GHG emissions reduction. While we acknowledge that only reductions from 2002-2012 should be counted to assess progress toward the President's goal, emission reductions from 2000 and on should be eligible for registration as long as they meet the requirements in the revised General Guidelines. The year 2000 is recommended because the petroleum industry did not have a consistent methodology for tracking emissions prior to 2000 and as greenhouse gas emission reporting has become more straightforward, emissions data from 2000 and on may be more easily verifiable. The DOE will encourage more participation by allowing entities to report and register some reductions prior to 2002. See Section 300.12(b) on page 7 for recommended language revisions.

As already mentioned above in *Report Acceptance*, **the DOE should respond within a specified time period concerning emission reduction registration**. We recommend an additional 30 days for this process. See Section 300.12(b) on page 7 for recommended language revision.

M. Sustaining Entity Reports of Emissions and Emission Reductions

The DOE should allow at least a 2-year grace period before deleting any data due to missed reports. Annual reporting of emission reductions is necessary to gauge the progress being made towards reaching the President's goal. However, sometimes an entity may miss a reporting year due to other pressing business needs. For example, merger and acquisition activity may cause a shifting of resources that disrupts the annual reporting cycle. Consider also that during this time, the entity boundaries would have to be redefined and previously reported data may have to be updated. All of this takes time. Therefore, we recommend that the DOE not be hasty about deleting emission reductions data from their records if an annual report is missed.

O. Cross-Cutting and Other Important Issues

1. Entity-Wide v. Sub-Entity or Project-Only Reporting

ChevronTexaco endorses the overall vision to encourage entity-wide reporting. However, from a practical perspective, **there needs to be a 4-year phase-in period**. The DOE should allow for transition from smaller business units and/or projects that are currently being reported to full entity-wide reporting. This will encourage continuing participation at the current levels until the data can be rolled up into larger scale reporting.

2. Treatment of Certain Small Emissions

"De minimis emissions" should be revised to mean 10,000 metric tons of CO_2 equivalent or < 5% of total emissions, whichever is *greater*. The proposed General Guidelines say that an entity could exclude emissions from multiple sources (and multiple gases) as long as the total emissions excluded did not exceed 3% of its total emission inventory or 10,000 metric tons of CO_2 equivalent, whichever is ***smaller*** (emphasis added). This would force large emitter and large energy intensive industries to report an unrealistically high percentage of their total emissions and discourage participation in the program. It has been our experience that accounting for < 5% of our total emissions is difficult and takes a significant amount of effort. The cost-benefit of very low levels of emissions reporting has not been established, and it is not clear precisely what the threshold will mean in practice to reporting entities. Therefore, the definition in Section 300.2 for "de minimis emissions" should be revised to mean 10,000 metric tons of CO_2 equivalent or < 5% of total emissions, whichever is ***greater***. The recommended 5% significance threshold is consistent with the de minimis definition in the California Climate Action Registry (CCAR). See Section 300.2 on page 6 of these comments for recommended language revision.

3. **Excluding the Effects of Changes in Output on Emissions**

The DOE should be flexible in allowing entities to determine the appropriate indicator as a basis for calculating emission reductions. Even in ChevronTexaco, we use more than one indicator to track progress in emission reductions. For instance, our real estate services company uses metric tons of $CO_2/ft.^2$ occupied office space while our refining company uses metric tons of CO_2/barrel of high value product. And, as is the case for aging oil and gas fields, selecting the appropriate indicator requires more thought given the potentially inherent operational increase in greenhouse gas emission intensity (see comments in Section H.1. on page 3). Therefore, we believe that while it is helpful for the DOE to provide guidance and suggest various indicators, it should ultimately be up to the entity to adopt the best indicator for their particular circumstances. The key is really for entities to be transparent about why and how the indicator is chosen.

4. **Emissions and Reductions Associated with Electricity Generation and Use**

ChevronTexaco believes that the DOE should encourage efficient use of cogeneration and integrated gasification combined cycle (IGCC) facilities and entities should get credit for installing these units. Emission allocation methodologies in the General Guidelines and the Technical Guidelines should be written to acknowledge and encourage more efficient means of generating electricity, particularly for facilities such as refineries that can very efficiently generate steam for process use and export electricity to the grid. In particular, companies that operate efficient power generation facilities, such as cogeneration (also known as Combined Heat and Power, or CHP) or Integrated Gasification Combined Cycle (IGCC), should be able to register emission reductions for electricity and steam generated by these technologies.

5. **Reporting and Registering Changes in Terrestrial Carbon Stocks**

Entities not desiring to certify and register terrestrial carbon stocks should not be required to comprehensively assess them. Section 300.6 (d) *Entity-level inventories of changes in terrestrial carbon stocks* says that "annual changes in terrestrial carbon stocks should be comprehensively assessed and reported across the entity . . ." We believe it is DOE's intent to require this in cases where entities would like to certify and/or register these stocks as emission reductions. Entities may have large land areas with naturally occurring carbon stocks but do not intend to tally them for entity-wide assessment of emission reductions. Entities not desiring to certify and register these stocks should not be required to comprehensively assess them. See Section 300.6 on page 6 for recommended language revision.

6. **Recognizing Emission Offsets**

ChevronTexaco supports the permission of entities to report and register emission reductions achieved by others. The reporting entity should provide all of the information that the non-reporting entity would have been required to submit directly, including an entity statement, an emissions inventory, and an entity-wide assessment of emission reductions. There should be an agreement between the entities clearly outlining who will report the emission reductions and this should be explained in the entity statement.

7. **International Emission Reductions**

The DOE should accept and encourage voluntary reporting and registration of non-US emissions and emission reductions given that climate change is a global concern. Voluntary international emissions data should be reported along with, but separate from, the U.S. data and should be eligible for registration. For this reason, all reporting and registration requirements should be consistent. Current 1605(b) regulations already allow the reporting of non-US emissions and emissions reductions. Therefore, we recommend that this reporting be extended under the proposed guidelines, including eligibility for registration.

8. **Relationship of Proposed Guidelines to Climate VISION, Climate Leaders and Other Voluntary Programs to Reduce Greenhouse Gas Emissions**

ChevronTexaco advocates one official, national program for voluntary greenhouse gas reporting – the DOE program. Having a single, national program will ensure consistency in methods and boundaries as well as simplicity for programs in determining how well goals are being met. A national system is essential for preventing a patchwork of inconsistent local, state, regional and other federal programs that would complicate reporting for large companies operating in several areas throughout the U.S. The DOE is the appropriate agency to have ownership of a national reporting system with the independent Energy Information Administration (EIA), managing the program.

PART 300
VOLUNTARY GREEHNOUSE GAS REPORTING PROGRAM: GENERAL GUIDELINES

300.2 Definitions

"De minimis emissions" are defined as "emissions from one or more sources and of one or more gases that when summed are less than **3** percent of the total annual CO_2 equivalent emissions of a reporting entity or less than 10,000 metric tons of CO_2 equivalent, whichever is *smaller*" (emphasis added). The cost-benefit of very low levels of emissions reporting has not been established, and it is not clear precisely what the threshold will mean in practice to reporting entities. Therefore, **we recommend that you change the definition to say "emissions from one or more sources and of one or more gases that when summed are less than 5 percent of the total annual CO_2 equivalent emissions of a reporting entity or less than 10,000 metric tons of CO_2 equivalent, whichever is greater."**

300.5 Submission of an entity statement

Business units should be able to continue to report their projects through a transition period until the corporation can report as an entity. If the reported information meets the registration requirements, then companies should be able to register emission reductions resulting from these earlier actions (even though it would not get counted toward meeting the President's goal).

300.6 Emissions inventories

The language in Section 300.6(d) should be revised to clarify that comprehensive terrestrial carbon stock assessments are only required if the entity wants to account for it in their emission reductions. This section currently implies that all reporting entities should comprehensively assess and report annual changes in carbon stock, regardless of whether the entity intends to account for it in their net entity-wide emission reductions. One way to clarify this is to add a sentence at the end of 300.6(d) that states, "The requirements in this section do not apply if an entity excludes terrestrial carbon stocks from their calculation of net entity-wide emission reductions."

300.10 Certification of reports

The position of chief executive officer is not appropriate for report certification. The management position responsible for reporting the entity's compliance with environmental regulations or other position designated as the certifier would be a more appropriate. We recommend that you revise 300.10(a) to say, "The person responsible for the reporting entity's compliance with environmental regulations, or other position designated with this responsibility, must, for each report of such entity, certify that: ..."

300.12 Acceptance of reports and registration of entity emission reductions

ChevronTexaco recommends that the DOE accept/reject reports and determine eligibility for emission reductions within a specified time period. We suggest that 60 days total should be adequate time to process the paperwork – 30 days each for report acceptance and registration of emission reductions. Also, as stated in Section L on page 3, **emission reductions from 2000 and on should be eligible to qualify for registration**. Recommended language changes are highlighted below.

> Section 300.12(a) – The first sentence should be revised to say, "Upon receipt, DOE will review all reports **within 30 days** to ensure they are consistent with the revised Guidelines."
>
> Section 300.12(b) – The first sentence should be revised to say, "DOE will review accepted reports **within 30 days** to determine any eligible emission reductions that were calculated using the reporting entities' base year emissions (no earlier than **2000**) or the average annual emissions of its base period (a period of up to four sequential years ending no earlier than **2000**), and to ensure that the reports meet other relevant DOE requirements."